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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002630

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TAGS: [EINV](#) [ECON](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: POST-CONFERENCE OPTIMISM FADES BUT NOT
EXTINGUISHED AS NEXT STEPS DEBATED

REF: A. TAIPEI 2365

[1](#)B. TAIPEI 2463

[1](#)C. TAIPEI 2488

[1](#)D. TAIPEI 2590

[1](#)E. TAIPEI 2618

Classified By: AIT Director Stephen M. Young, Reason 1.4 d

[1](#)1. (C) Summary: Premier's Su announcement that the administration will not relax the 40 percent ceiling on investment in the PRC at this time has disappointed many who expected dramatic cross-Straits economic liberalization after Taiwan's Sustainable Economic Development Conference (SEDC). However, Su confirmed to the AIT Director that the administration will continue to move forward with other liberalization measures discussed in the conference. Council of Economic Policy and Development Chairman Hu indicated that it might yet be possible to adjust the 40 percent limit as well. Industry disappointment ranges from mild dissatisfaction to utter disillusionment. However, many academic observers and others have praised the conference results. Events of the last week indicate that we should continue to see gradual liberalization at a quicker pace than earlier in the Chen administration. End summary.

Su Stanches Speculation on 40 Percent

[1](#)2. (C) In the week after Taiwan's Sustainable Economic Development Conference (SEDC), Premier Su Tseng-chang clarified his plans on implementation of cross-Straits liberalization measures with an August 2 public announcement ruling out immediate relaxation of the 40 percent limit on investment in the PRC. The move disappointed many observers, who had been optimistic immediately after the conference that his endorsement of the decision to include relaxation of the limit among the "other opinions" recommendations of the conference signaled his intention to proceed with relaxation in the face of Deep Green opposition. Su further explained his intentions to the AIT Director on August 3. Su stated that there were some areas where the administration could open up cross-Straits economic relations but the 40 percent ceiling could not be changed. He noted that Taiwan was the largest foreign investor in the PRC and that it was dangerous for Taiwan to put all of its eggs in one basket.

Other Steps Will Proceed

13. (C) Emphasizing the conference's accomplishments, Su said that the administration would quickly implement the 58 consensus items on cross-Straits economic relations and globalization. He specified further opening to PRC tourists and PRC employees of Taiwan and multinational firms and making it possible for Taiwan banks to open branches in the Mainland as priorities. The Premier stressed a step-by-step approach, noting that Taiwan would continue to engage the PRC in industry-led discussion on expansion of cross-Straits charter flights. If holiday charter flights work well, they will move forward on the next step toward direct aviation links. The Executive Yuan (EY) confirmed its intention to proceed with other consensus items this week with the August 1 announcement that it would permit large numbers of PRC employees to visit Taiwan. The Mainland Affairs Council approved more than 500 PRC employees of Microsoft to visit Taiwan for a regional company conference here (ref E). In addition, the Ministry of Economic Affairs on August 2 announced plans to release new regulations permitting semiconductor manufacturing investment using 0.18-micron technology.

Tinkering with the 40% Ceiling Still Possible

14. (C) Chairman Hu Sheng-cheng, whose Council for Economic Planning and Development organized the SEDC, told the Director on August 4 that despite Su's announcement, the EY may yet alter the 40 percent ceiling to permit Taiwan firms to increase their investment in the PRC. He commented that even though the Deep Green Taiwan Solidarity Union (TSU) identified the 40 percent limit as the cornerstone of President Chen's "active management, effective opening" policy, the EY was likely to allow exceptions for some industries or investment in some

TAIPEI 00002630 002 OF 003

provinces. The generally upbeat Hu commented that despite the bickering, the conference had succeeded in giving an opportunity for representatives of a broad cross-section of Taiwan society to discuss long-term economic strategies. Although the TSU and four environmentalists walked out of the conference, they were active participants through most of the discussions. Even though business groups had expressed dissatisfaction, Hu said that the president of one industry association had called to express gratitude that the event had been held. He also underscored progress on the national pension system, CO2 emissions, tax incentives for industry and energy conservation.

Industry Disappointment Deepens

15. (C) In an August 2 meeting with the Director, Evergreen Group Chairman Chang Yung-fa expressed his utter disillusionment with President Chen Shui-bian on cross-Straits policy. Chang was an early supporter of Chen, who did legal work for Evergreen early in his career. As a shipping and aviation businessman, Chang has strong interests in the establishment of direct links. He explained to the Director that his belief that a more democratic government under the DPP would be more effective at managing cross-Straits relations had evaporated since Chen came to power. He doesn't believe that Su will be able to improve the situation because he still lacks independence from Chen. Chang said bluntly that Chen loses more face every day with each new scandal and should resign now.

16. (C) Disappointment with the SEDC results among Taiwan's business leaders seemed to deepen further after Su's announcement on the 40 percent rule. Gary Wang, chairman of the General Chamber of Commerce of the R.O.C. and Eastern Multimedia Group, told econoff August 3 that relaxation of the 40 percent ceiling was the highest priority of large-scale Taiwan firms. Wang had been one

of the key promoters of the SEDC as well as its predecessor, the 2001 Economic Development Advisory Commission. He believed that the SEDC could provide a basis for the Executive Yuan (EY) to move forward on cross-Straits liberalization. However, he was disappointed that so many industry priorities had been left as "other opinions" and that quick relaxation of the 40 percent ceiling had been taken off the table.

17. (C) Peter Sutton, head of research for the Taiwan office of investment bank CLSA, was still more critical of the conference and subsequent moves by the administration. He characterized the SEDC's impact as "nothing." Sutton told econoff on August 4 that he believed the Democratic Progressive Party administration wanted to move forward on cross-Straits liberalization, but Deep Green opposition would succeed in preventing the kind of measures that Taiwan really needs. He acknowledged that the decision to allow more PRC employees to come to Taiwan was significant, but complained that the permitting 0.18-micron semiconductor investment was not nearly as important as it would have been two years ago. The administration was unable to take bold action in the days following the conference, and Sutton believes that with December mayoral elections in Kaohsiung and Taipei approaching, a better opportunity in the near future is unlikely.

18. (C) Deputy Secretary General Tsai Horng-ming of the Chinese National Federation of Industry (CNFI) gave the conference outcome a more positive spin. He told econoff that even though CNFI was dissatisfied with the results, the conference was still a step forward. Tsai believes that the "other opinions" recommendations for the conference will provide the EY with some basis to implement important liberalization measures. Because the forum provided a forum for many points of view, Tsai found it an effective way to make the compromises that are necessary in a democracy. Nevertheless, he complained about the Taiwan "disease" of focusing too much attention on cross-Straits issues to the neglect of other measures that could benefit Taiwan's economy.

Academics Accentuate the Positive

19. (C) Observers in the academic community have been more likely to stress the benefits of the forum that CEPD's Hu

TAIPEI 00002630 003 OF 003

and CNFI's Tsai noted. Vincent Siew, chairman of the Chung-hwa Institute for Economic Research, former KMT Premier, and one of the SEDC co-conveners, assessed the SEDC overall as "not too successful, but acceptable." He told the Director on August 2 that given very low expectations for the conference, political conflict and President Chen's low approval rating, the fact that the SEDC was able to reach consensus on 516 recommendations was surprisingly good. Siew praised the conference for giving many different interest groups, representing social welfare, environmental and labor interests, the opportunity to listen to each other and gain a better mutual understanding. Pointing out that there was uniform support for closer economic integration with Mainland China among local and foreign businesses, he argued that Su should just go with the flow and listen to the advice of industry groups. Because President Chen is distracted by scandal, Siew believes Su has a free hand to pursue his own direction. Siew echoed CNFI Tsai's comments that the media was too focused on the controversy surrounding "other opinions." As a result, many of the widely-accepted recommendations from a report he submitted to the conference received little attention.

10. (C) Kung Ming-Hsin, vice president of the Green-leaning Taiwan Institute for Economic Research and one of the SEDC drafters of the recommendations on cross-Straits

issues, lauded the EY for listening to the concerns of Taiwan's business community at the conference. According to Kung, the 516 consensus recommendations may not be very precise, but they do give the EY some basis for action. Kung downplayed the importance of the 40 percent ceiling, calling it a symbolic issue. He suggested that by compromising on the 40 percent ceiling Premier Su may be in a better position to move forward on other issues. Kung believes that lifting restrictions on PRC travel to Taiwan is more important to the local economy. He also lamented the focus on cross-Straits issues, noting that one important measure that received little attention was a recommendation to make English Taiwan's second language.

¶11. (C) National Central University Professor Chu Yung-peng, a blue-leaning academic who was also one of the drafters of the cross-Straits recommendations, described the conference results to econoff as "not bad." He was optimistic that recommendations that were relegated to "other opinions" might yet be implemented after some time. Chu commented that when the Taiwan Solidarity Union (TSU) walked out of the conference and derided the results afterwards, they were "just making a political statement." In effect "everybody got what they wanted" out of the conference, Chu said.

Comment - Gradual Progress, Industry Disappointment

¶12. (C) Although Premier Su lowered expectations this week with his announcement that the EY would not relax the 40 percent investment ceiling at this time, events since the SEDC confirm that gradual progress on cross-Straits economic liberalization will continue. In his conversation with the Director, Premier Su discounted the notion in the media that he was pursuing a "Su revisionist line" (Su xiu luxian) that diverged from President Chen's cross-Straits policy. However, the administration's actions in recent months on charter flights, tourism, PRC employee travel, and industry based restrictions on investment make it clear that Su and his team envision further liberalization. In addition, the pace is definitely quicker than it has been earlier in the Chen administration. It appears that industry will be disappointed by the lack of a bold move on the 40 percent ceiling. However, less dramatic relaxation of the ceiling is still possible and the conditions for further progress in other areas remain in place. One wild card is the possibility President Chen might heed Deep Green cautions and rein in his Premier. Absent that, we suspect Su and his able Vice Premier Tsai Ing-wen will continue to push the envelope on cross-Straits liberalization in the coming months.

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